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Dairy Farmers Protest Eroding Pillars of Supply Management

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Report Highlights:

On December 18, approximately 3,500 angry Canadian dairy farmers converged on federal government department's of International Trade, Customs, Finance, and Agriculture to protest the erosion of two of the three pillars of supply management (price and border controls) regulated by the Canadian government. Dairy producers accuse the Canadian government of allowing dairy imports to circumvent Canadian import controls at the border as well as not setting high enough industrial milk prices for dairy producers. Dairy farmers claim that only 30% of producers are covering their costs of production, despite consecutive years of industrial milk price increases.

Includes PSD changes: No
Includes Trade Matrix: No

DAIRY FARMERS PROTEST FEDERAL COMMITMENT TO SUPPLY MANAGEMENT

The Government of Canada has established an inter-departmental committee charged with examining the impacts of imports of special dairy blends that are circumventing Canada's dairy import tariff rate quotas. According to Leo Bertoia, president of Dairy Farmers of Canada (DFC), the committee is examining the double impact on milk producers of imported blends and flagging domestic support prices.

Bertoia said dairy farmers have been told they will not receive a copy of the working group's report. DFC has complained to federal Agriculture Minister Lyle Vanclief. The federal government formed the committee after dairy farmers rallied in Chicoutimi, Quebec in August to complain about federal inaction on imports of butteroil/sugar blends, casein and whey products.

The blends are not subject to Canada's tariff rate quotas (TRQs) on dairy imports because they contain less than 50% dairy content. Dairy farmers maintain the blends are specifically designed to get around the TRQs and undermine the domestic market. They say the increase in uncontrolled imports cost Canada's milk producers over C\$80 million in lost sales during 2000/01. Butteroil imports have increased by 557% since 1995, while imports of casein and whey products have risen by 178% and 1,639% respectively, Bertoia said.

However, according to Statistics Canada April-June 2002 *Dairy Review*, cash sales of milk and cream for 2001 was C\$4.43 billion, while total farm sales (cash receipts less transportation/handling, administration, promotion/advertising, and other fees) of milk and cream in 2001 were C\$4.14 billion. Thus the value of displaced sales of C\$80 million represents just 1.8% of total cash sales or 1.9% of total farm sales.

The products are used in a range of processed dairy foods. About 25% of ice cream made in Canada uses imported blends instead of domestically produced milk. The amount of domestic milk displaced as a result is equal to 2.4% of Canada's market share quota (MSQ) for industrial milk, or all the MSQ in Saskatchewan, Bertoia said. The displacement of domestic milk has resulted in near-record surplus stocks of skim milk powder. Bertoia said the buildup of stocks since 1997/98 cost dairy farmers C\$63 million in lost revenue during 2000/01, equivalent to two percent cut in MSQ.

Milk producers want the federal government to reclassify the blends under tariff lines and restrict their imports, as is the case now with milk, butter, cheese and other dairy products. But Bertoia said federal bureaucrats are unwilling to do so, fearing it could leave Canada open to a trade challenge.

He accused the federal government of failing dairy farmers on two of the three so-called "pillars" of supply management. Those include import restrictions, price regulation and production controls. The government is responsible for the first two. In return, producers agree to limit their output through production quotas.

But dairy farmers say that, besides failing to properly control imports, Ottawa is not maintaining producers' returns through the pricing system for industrial milk. Bertoia said the current Canadian Dairy Commission (CDC) target price of C\$58.87 per hectoliter is C\$10.50 short of covering the gap between dairy farmers' receipts and production costs. According to the CDC, the gap is only C\$5 per hectoliter.

However, in the case of the *Canada – Measures Affecting The Importation of Milk And the Exportation of Dairy Products* versus the United States and New Zealand, in the data presented by Canada, the unweighted cost of production of the individual producers, in Canada's sample, was as low as C\$7.01 and as high as C\$66.80322, while the weighted average cost ranges from C\$18.53 to C\$46.60.

The CDC decision on the 2003 target price for industrial milk on December 13 increased the price of industrial milk by C\$2.36 per hectoliter, but DFC had demanded a minimum C\$3 per hectoliter increase in the price (see GAIN report CA2145). The CDC has promised to raise industrial milk prices to cover the cost of production (COP) for 50% of Canada's 19,000 dairy farmers over the next four years. Currently, only about 30%, of farmers are covered by the COP, according to Bertoia.

Dairy Farmers Protest 'Unfair' Tariff Rules

According to press reports, about 3,500 Canadian dairy farmers shouted slogans, waved signs and called on the Canadian federal government to tighten up the Canadian border as they mounted a noisy protest against imports and price regulations they say are hurting the industry. The protesters made their way from the headquarters of the Department of Foreign Affairs and International Trade (DFAIT), the Canada Customs and Revenue Agency (CCRA), and Finance Canada before stopping for a noon-hour rally at the Agriculture and Agri-Food Canada (AAFC) and CDC.

The farmers were protesting the federal government's tariff rules on dairy products, saying the government isn't doing enough to stop international dairy products from entering Canada. "Our market is being eroded by imports that are coming in from other places," namely the U.S. and New Zealand, said David Wiens, a Manitoba producer who milks 180 cows.

Under rules imposed by the World Trade Organization, imports can make up about five percent of the Canadian dairy market. But protesters say processors on the other side of the border can skirt those rules. In order to receive classification as a dairy product, a product must be at least 50% dairy. Some processors import items that contain 49% of dairy and 51% of a non-dairy product. This allows the product's entry into Canada as a non-dairy item, even though it's close to a dairy product in composition.

One example is butter oil and sugar blends, which are used mainly to make ice cream. They often contain 51% sugar and 49% butter. Therefore, they are allowed into the country even though they severely displace Canadian products, protesters complained.

A working group consisting of the CFIA, CCRA, the departments of Foreign Affairs, Finance and

Agriculture and Agri-Food, was set up this fall to look at the concerns of the producers.

Amongst other concerns, the working group is looking at whether the sugar and butter blends should be reclassified into a new tariff category, said Richard Tudor-Price, the director of the supply management division at Agriculture. The working group has met twice with the dairy farmers and should report to ministers over the next few weeks, Mr. Tudor-Price said.

Leo Bertoia, DFC president, said most farmers weren't pleased with the fact that they received less of a price increase than they wanted, but stressed the rally was mainly about the tariff issue.

Restaurant Industry Appalled by Dairy Farmer Demands

On December 18, 2002, the Canadian Restaurant and Foodservices Association (CRFA) said that faced with an C\$85-million bill for higher dairy prices in 2003, Canada's restaurant industry is appalled that dairy farmers are rallying to demand more concessions from the federal government.

CRFA announced on December 13 that dairy prices will rise by 4.5% in 2003, the latest in a long string of price hikes approved by the CDC despite the fact that the cost of producing milk has been falling for years. Under the supply management system, dairy prices should rise and fall in line with production costs. In reality, prices continue to go in only one direction - up. "Supply management has allowed dairy producers to inflate prices to an outrageous degree. It's little wonder that the average dairy farm is worth over C\$1 million in quota value alone," says Stephanie Jones, CRFA Vice President of Food Supply. New evidence provided by the Canadian government in response to trade challenges filed at the World Trade Organization (WTO) shows that industrial milk that now sells for almost C\$60 per hectoliter costs only about C\$29/hectoliter to produce. Even adding 20% for profit and marketing costs, the price should rise to just C\$35/hectoliter.

"Dairy producers should be working with their customers and with the Canadian government to prepare for the realities of more global competition, rather than reverting to tired, protectionist policies. The restaurant industry relies on a stable, domestic supply of Canadian dairy ingredients, but that supply will be put at risk unless the dairy industry takes control of its future," says Jones.

Consumers Sour on Protest by Dairy Farmers

On December 18, 2002, the Consumers' Association of Canada (CAC) reported that the December 18 rally in Ottawa by the DFC is an attempt to hold consumers hostage to limited choice and high prices.

Time-pressed consumers are buying more prepared, frozen meals made with lower-priced cheese from the United States, but Canadian dairy farmers want to stop this trend. They make unwarranted profits by charging Canadian consumers far more than it costs to produce their milk, and don't want to see those profits eroded by lower-priced U.S. ingredients.

"It's a ludicrous situation when one agricultural sector has the power to hold consumers hostage to high

prices and limited supply," says CAC President Mel Fruitman. "Almost every other type of farm in Canada successfully competes both domestically and abroad. The dairy farmers, on the other hand, are hopelessly addicted to almost C\$2.5 billion a year in consumer subsidies."

Under supply management, the dairy industry has complete control over the price and supply of dairy ingredients, and consumers have no protection from ever-increasing prices. The average dairy farm makes a profit margin of 25% - almost double that of the average Canadian farm, according to Statistics Canada reports.

With growing domestic and international criticism of Canada's supply management system, the CAC believes the Canadian government must prepare dairy farmers for the inevitable transition to more open markets. "If we are to have a reliable, affordable supply of Canadian dairy products into the future, farmers and the Canadian government need to find a way to break their subsidy addiction," says Honey Forbes, CAC volunteer and member of the Canadian Milk Supply Management Committee. "More liberalized trade is inevitable, and dairy farmers have to manage it to their advantage. Instead they want to keep milking Canadian consumers through artificially inflated prices."

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